Ontario Energy Board

ANNUAL REPORT

Fiscal Year Ended March 31, 1984

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Ontario

Energy Ontario

Ministry of Energy

Queen's Park
Toronto, Ontario
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416/965-4286
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August 31, 1984

TO THE HONOURABLE JOHN BLACK AIRD
O.C., Q.C., B.A., LL.D.

Lieutenant Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Twenty Fourth Annual Report of the Ontario Energy Board for the fiscal year ended March 31, 1984.

Respectfully submitted,

Philip Andrewes
Minister of Energy

Ontario

Ontario
Energy
Board

9th Floor
14 Carlton Street
Toronto, Ontario
M5B 1J2

416/598-1600

June 29, 1984

Honourable Philip Andrewes
Minister of Energy
Queen's Park
Toronto, Ontario
M7A 2B7

Dear Minister:

I have the honour to present herewith the Annual Report of the Ontario Energy Board for the fiscal year ended March 31, 1984.

Respectfully submitted,

Robert H. Clendining
Chairman

VT INCEPIT FIDELIS SIC PERMANET

Ontario

Ontario
Energy
Board

ANNUAL REPORT

Fiscal Year Ended March 31, 1984

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APPENDICES

Most of the quantitative references in this Report are expressed in metric units. The following conversion table is provided for your convenience.

1 cubic metre(m^3)	=	0.0353 thousand cubic feet(Mcf)
1 thousand cubic metres(10^3m^3)	=	0.0353 million cubic feet(MMcf)
1 kilometre(km)	=	0.6214 miles
1 thousand cubic feet(Mcf)	=	28.328 cubic metres(m^3)
1 million cubic feet(MMcf)	=	28.328 thousand cubic metres(10^3m^3)
1 mile	=	1.609 kilometres(km)

INTRODUCTION

The Board

The Ontario Energy Board is a quasi-judicial regulatory agency of the Government of Ontario. It is comprised of Members, appointed by the Lieutenant Governor in Council under the Ontario Energy Board Act, and technical and administrative staff, appointed under the Public Service Act. The Board is responsible to the Legislature through the Minister of Energy.

Role of the Board

The Board regulates all natural gas utilities in Ontario except those municipally owned and controlled. It is responsible for determining rates and charges for the transmission, storage, distribution and sale of natural gas in the province; for the designation and authorization of natural gas storage areas; for authorizing construction of transmission lines; for authorizing expropriations for natural gas pipelines; and for approving franchises for natural gas utilities to serve designated areas. The Board acts upon references from the Minister of Energy regarding Ontario Hydro wholesale rates and other rate-related matters; from the Minister of Natural Resources regarding certain oil and gas matters; and from the Lieutenant Governor in Council on any question respecting energy.

Jurisdiction of the Board

Under the Ontario Energy Board Act

Approving or fixing rates and other charges for the sale of gas by transmitters, distributors and storage companies and for the transmission, distribution and storage of gas.

Ensuring compliance by gas utilities with the Uniform System of Accounts.

Granting leave to construct pipelines and related facilities.

Granting authority to expropriate land for pipelines and related facilities and authorizing pipeline crossings of highways, utility lines and ditches.

Recommending to the Lieutenant Governor in Council the creation of designated gas storage areas, authorizing their use and arbitrating compensation payable to landowners under certain conditions.

Approving gas storage agreements and allocating surplus storage facilities to a transmitter or distributor.

Unitizing the interests in gas and oil spacing units and pools.

Reporting to the Lieutenant Governor in Council on applications by gas utilities to sell their assets or amalgamate with other utilities and on applications by persons to acquire shares of a gas utility which would result in a holding of more than 20 per cent of such shares.

Upon reference from the Lieutenant Governor in Council, reporting on any question respecting energy.

Upon reference from the Minister of Energy, reporting on Ontario Hydro rate proposals and related matters.

Under the Municipal Franchises Act

Approving the terms of a proposed by-law granting a franchise to supply gas to a municipal corporation or to distribute gas in the municipality, and extending the term of such franchise or of a transmission franchise.

Granting certificates of public convenience and necessity to construct works and supply gas in municipalities.

Under the Petroleum Resources Act
Upon reference from the Minister of Natural Resources, reporting on certain applications for permits and licences.

Under the Public Utilities Act
Controlling gas utilities that contravene municipal by-laws prohibiting the distribution and sale of gas containing sulphuretted hydrogen.

Under the Assessment Act
Deciding whether certain gas pipelines are transmission lines for assessment purposes.

Under the Toronto District Heating Corporation Act, 1980
Upon appeal by a customer, fixing steam rates for certain customers of the Toronto District Heating Corporation.

iew

The operating environment of the Board during the fiscal was affected by various changes. In addition to a ne in inflation, Federal Government arrangements with ta resulted in a lessening of the rate of increase in nolesale cost of gas to the utilities. As a consequence ese and other factors, there were less significant rate cations filed by Ontario utilities and fewer rate ases granted. This trend is expected to continue in the nt fiscal year.

When each rates application was being considered, the ty was required to inform the Board whether it was ting within the Ontario Government restraint program and it had taken steps to remain within the guidelines for uration of the program.

In addition to the annual reference from the Minister of Energy regarding Ontario Hydro wholesale rates, the Board also received a direction from the Lieutenant Governor in Council to hold public hearings and report on aspects of natural gas supply and pricing of concern to Ontario industries using natural gas as a feedstock. These references and eleven applications for gas rate changes, as well as thirty-one other proceedings, were considered by the Board and are summarized in this Report.

REGULATORY HEARINGS

Natural Gas Rates

Introduction

On June 30, 1983 the Federal Government announced that an amendment to the September 1, 1981 Memorandum of Agreement had been successfully negotiated with the Government of Alberta. The effect of this amendment was to stabilize natural gas pricing to January 31, 1985. During this period, the wholesale price for natural gas was not to exceed 65 percent of the price of oil.

During the fiscal year, this action had a beneficial influence in moderating the previous escalation of natural gas rates in Ontario. The effect of this moderation on typical residential customer rate changes granted to each of the three major Ontario gas utilities is shown in the Appendices.

A comparison of Federal Government changes in wholesale gas costs to the utilities for the past two fiscal years is set out below:

Amount of Increase (Decrease)
$ per 10^3m^3

1983-84		1982-83	
August 1, 1983	(0.38)	August 1, 1982	9.38
		September 1, 1982	4.51
February 1, 1984	0.38	February 1, 1983	2.24

The Consumers' Gas Company Ltd.

Consumers' distributes natural gas in parts of southern and eastern Ontario, including Metropolitan Toronto. It also operates under the names of Brockville Gas, Grimsby Gas, Ottawa Gas and Provincial Gas.

Consumers' previous rates application for its 1983 test year was summarized in the last Annual Report. However, Board Reasons for Decision relating to Phase II of that application were not issued until April 26, 1983. The Board concluded, among other things, that future cost allocation studies should be based on rate schedules, including a separation between small volume and large volume high load factor service (Rate 110). The Board also concluded that establishing Cyanamid Canada Inc. (a current Rate 110 customer) as a separate rate class was not justified.

The Board recognized the trend of increasing indicated overcontribution from the high load factor customer class (Rate 110) compared to the continuing increase in the indicated undercontribution of the residential customer class. In order to modify this trend and to recognize the non-cost factors, the Board ordered the utility to reduce the commodity charge to Rate 110 customers. The revenue shortfall resulting from this reduction in rates was to be recovered through rate increases to the residential and general service customers.

Consumers' new main rates application for its 1984 test year was filed in April and heard in June, July and August, 1983. Consumers' requested rate increases to avoid incurring a forecast revenue deficiency of $19.5 million in its 1984 fiscal year. In its Reasons for Decision of November 1, 1983 the Board determined that a reasonable rate of return on rate base was 12.80 percent and, after making a number of adjustments, that there would be no revenue deficiency in Consumers' 1984 fiscal year and, therefore, no need for rate increases.

The following table shows the significant financial elements of Consumers' final submission and the Board Decision for the 1984 test year. The previous Board Decision for the 1983 test year is shown for comparison.

	EBRO 386 Previous Board Decision Jan. 26/83	EBRO 395 Final Consumers' Submission	EBRO 395 New Board Decision Nov. 1/83
	Test Year Ending September 30 1983	1984 ($000's)	1984
Rate Base	1,155,729	1,225,600	1,211,700
Utility Income	134,934	150,200	155,100
Indicated Rate of Return on Rate Base	11.67%	12.26%	12.80%
Cost of Capital			
Long-term Debt	11.48%	12.11%	12.11%
Unfunded Debt	13.50%	10.30%	10.00%
Preference Shares	9.87%	11.07%	10.98%
Accumulated Tax Deferrals	-	-	-
Common Equity	15.75%	16.00%	15.30%
Allowed Rate of Return on Rate Base	12.52%	13.05%	12.80%
Revenue Deficiency	20,100	19,500	0

Consumers' proposed to recover $23.345 million in unabsorbed demand charges through rates in its 1984 test year of which $20.341 million was expected to be incurred in its 1983 fiscal year. It further proposed that $5.223 million forecast unabsorbed demand charges in 1984 should be recovered in rates in its 1985 fiscal year. The Board decided that of the total forecast of $28.568 million, $8.227 million should be recovered via rates in Consumers' 1984 test year. The Board also allowed the recovery through rates, in Consumers' 1984 test year, of unabsorbed demand charges of $7.090 million forecast to be incurred in Consumers' 1983 fiscal year. The total recoverable unabsorbed demand charges in the test year were, therefore, $15.317 million.

As previously noted, Cyanamid Canada Inc. requested that it be placed in a separate rate class for firm gas service and that it be charged a "cost based" (as distinct from "cost related") rate for the balance of 1983 and a"decremental rate" from January 1, 1984. These requests were denied by the Board. On November 28, 1983 Cyanamid petitioned the Lieutenant Governor in Council to vary the Board Decision by ordering Consumers' to comply with Cyanamid's requests and make appropriate adjustments. This petition was pending at the end of the fiscal year.

Inter-City Gas Corporation

Inter-City is a Manitoba-based gas utility which distributes gas in and west of Fort Frances, Ontario.

Inter-City had filed a new main rates application on August 12, 1982. Pending the hearing of the main application, Inter-City, on August 8, 1983, requested an interim order, without a hearing, to provide for a reduction in its gas rates. By Order dated August 25, 1983 the Board granted the requested reduction of 6.04 cents per Mcf effective September 1, 1983.

A further Order, dated March 16, 1984, granted a one-time rate refund of 4.69¢ per Mcf reflecting a reduction by the U.S. Federal Energy Regulatory Commission of the transportation rate of Inter-City Minnesota Pipelines Limited.

By application dated January 16, 1983 Inter-City applied for temporary winter service rates to Boise Cascade Canada Limited for the period November, 1983 to March, 1984 inclusive. This application was deferred to the hearing of the main application which was pending at the end of the fiscal year.

Natural Resource Gas Limited

Natural Resource Gas (NRG) is a small utility serving Aylmer and surrounding communities and acquires its natural gas supply from Union Gas, Consumers' Gas and local producers.

NRG filed a main rates application on February 21, 1983. On July 21, 1983 NRG applied for an interim increase in its rates, effective August 1, in order to recover increases in the wholesale cost of gas. The interim hearing commenced on October 28, 1983 at which time it was adjourned until further notice at the request of NRG. On February 23, 1984 NRG withdrew its interim application and it was decided to proceed with the main application. Consideration of the main application began on April 30, 1984 and after two days of hearing was adjourned pending resolution of NRG's gas supply agreement with Union Gas.

Northern and Central Gas Corporation Limited

Northern and Central distributes natural gas in parts of northern and southeastern Ontario.

As noted in the previous Annual Report an Order-in-Council dated March 16, 1983 prevented the Board from issuing an Order implementing its March 8, Reasons for Decision because the Minister of Consumer and Commercial Relations had referred the Decision to the Inflation Restraint Board (I.R.B.) for consideration. The I.R.B. changes are identified in the table which follows.

By application dated June 2, 1983 Northern claimed that it would experience a revenue deficiency of $9,354,300 in its 1984 test year. It proposed that this deficiency be recovered entirely from its fixed rate classes. This application was heard in October, and the Board Reasons for Decision were issued on December 30, 1983.

The following table shows the significant financial elements of Northern's final submission and the Board Decision for the 1984 test year. The previous Board Decision for the 1983 test year is shown for comparison.

	EBRO 384	EBRO 396	
	Previous Board Decision Mar. 6/83	Final Northern Submission	New Board Decision Dec. 30/83
	Test Year Ending December 31		
	1983	1984 ($000's)	1984
Rate Base	237,986.7	274,215.0	273,715.0
Utility Income	23,412.5	31,448.3	31,683.9
Indicated Rate of Return on Rate Base	9.84%	11.47%	11.58%
Cost of Capital			
Long-term Debt	11.91%	12.55%	12.55%
Preference Shares	5.55%	6.16%	6.16%
Accumulated Tax Deferrals	3.00%	3.00%	3.00%
Common Equity	16.00%*	16.25%	15.75%
Allowed Rate of Return on Rate Base	12.65%*	13.14%	12.98%
Revenue Deficiency	13,620.0*	9,354.3	7,820.4

* Subsequently revised as follows by Order-in-Council 1754/83 dated June 24, 1983 based on Inflation Restraint Board review.

Common Equity	15.85%
Allowed Rate of Return on Rate Base	12.59%
Revenue Deficiency	13,329.2

The Board determined that a $7,820,400 revenue deficiency would exist in the 1984 test year and accepted the method proposed by Northern for the recovery of this deficiency from the fixed rate classes. This would result in a maximum annual increase of about 4 percent for a typical residential customer. The Board confirmed an interim rate decrease to special contract customers based on cost allocation evidence and its conclusion that rate increases to industrial customers at that time could precipitate further reductions in sales and the potential

loss of industrial customers to an alternate fuel source which would have the effect of increasing rates to all remaining customers.

The Board rejected Northern's request to recover in rates, over the next five years, a TransCanada PipeLines demand charges payment of $2.3 million (including $1 million interest) as a result of unsuccessful litigation concerning a contract between the companies. The Board also rejected Northern's proposal for a deferred account to accumulate unrecovered demand charges resulting from future "force majeure" situations with its contract customers.

Tecumseh Gas Storage Limited

Tecumseh provides underground gas storage facilities in Lambton County to serve Consumers' Gas. It does not distribute natural gas.

On March 7, 1983 Tecumseh applied for increased rates to be charged for the storage and transportation of gas. This application was heard in May and the rate proposals were approved subject to adjustment to reflect the reduced revenue deficiency determined by the Board.

The following table shows the significant financial elements of Tecumseh's final submission and the Board Decision. The previous Board Decision is shown for comparison.

	EBRO 385	EBRO 394	
	Previous Board Decision July 20/82	Final Tecumseh Submission	New Board Decision June 20/83
	Test Year Ending March 31		
	1983	1984	1984
		($000's)	
Rate Base	51,260.8	54,228.4	54,179.9
Utility Income	3,933.2	5,736.3	5,886.9
Allowed Rate of Return			
on Rate Base	12.39%	13.27%	13.07%
on Common Equity	15.00%	15.00%	14.50%
Revenue Deficiency	2,418.0	1,458.7	1,192.0

Union Gas Limited

Union distributes natural gas in most of southwestern Ontario.

As noted in the previous Annual Report, a main rates application for Union's 1984 test year was filed in July, 1982 with pre-filing of evidence completed in September. The hearing began in December, 1982 and argument was completed in February, 1983.

The following table shows the significant financial elements of Union's final submission and the Board Decision for the 1984 test year. The previous Board Decision for the 1983 test year is shown for comparison.

	EBRO 382	EBRO 388	
	Previous Board Decision April 8/82	Final Union Submission	New Board Decision April 22/83
	Test Year Ending March 31		
	1983	1984 ($000's)	1984
Rate Base	713,350	867,071	809,150
Utility Income	78,278	80,153	85,364
Indicated Rate of Return on Rate Base	10.97%	9.24%	10.55%
Cost of Capital			
Long-term Debt	11.85%	12.01%	11.96%
Short-term Debt	18.00%	12.00%	10.75%
Preference Shares	7.83%	9.90%	9.90%
Common Equity	16.75%	17.00%	15.60%
Allowed Rate of Return on Rate Base	13.08%	13.08%	12.65%
Revenue Deficiency	31,062	67,515	39,355

One of the cost items contributing to Union's claimed revenue deficiency was the fact that the unit cost of synthetic natural gas (SNG) purchased by Union from Petrosar Limited was significantly higher than the unit cost of Union's other gas supplies. The total premium accumulated

under the Petrosar contract during the period November 1, 1981 to March 31, 1983 was approximately $60 million. However, successful mitigation by Union had reduced the premium to $9.217 million, which amount the Board directed be collected in rates in Union's 1984 and 1985 fiscal years. The Board further ordered that no part of this net premium was to be included in rate base nor interest paid on this amount after March 31, 1983.

Union forecast a 1984 test year cutback in the Contract Demand (CD) gas supply contract which would result in unabsorbed demand charges of $8.693 million and it proposed that these be included in its cost of gas for the 1984 test year. The Board disallowed the charges and Union subsequently applied to the Divisional Court for leave to appeal the Board decision in this regard. Leave to appeal was granted but the appeal was dismissed on November 1, 1983.

Union's proposal to recover the revenue deficiency from the various customer classes on an incremental basis was accepted by the Board. However, the Board did not accept Union's proposed structural change to its rate schedules. Further, Union's proposal to revert to two rate schedules instead of the current single schedule for residential and non-contract commercial and industrial customers was rejected by the Board in the interests of stability and in the absence of any compelling reason for such a split at this time.

During this proceeding the Board authorized two rate changes on an interim basis, subject to adjustment, to recover increases in the cost of gas. The Board decision confirmed the Interim Orders and directed that $300,000 in inventory credits be passed on to the affected customers. The Board also ordered the recovery of the reduced revenue deficiency by increasing designated rate schedules.

The Board expressed concern about the alternating increases in the demand and commodity components of rate schedules. The semi-annual gas cost pass-throughs, imposed by the Canada/Alberta energy pricing Memorandum of Agreement prior to the time of this hearing, had resulted in increases in the commodity charge, whereas past annual revenue deficiencies impacted more heavily upon the demand component. The Board is primarily concerned with rate stability but it also recognizes that this may result in an inherent and unavoidable characteristic when "passing through" the upstream cost of gas. The Board is to be kept informed of Union's continuing efforts to maintain reasonable relationships between commodity and demand charges.

A new rates application for Union's 1985 test year was filed in September, 1983. This application was heard in December, 1983 and in January and March, 1984. The hearing was adjourned on January 23 to prepare for consideration of the matter of a security deposit required by Union from Natural Resource Gas Limited. The hearing was reconvened on March 2, 1984 and concluded in the same month. The Board decision was pending at the end of the fiscal year. (Reasons for Decision regarding rates were subsequently issued on April 24, 1984 followed by Supplementary Reasons for Decision regarding the NRG security deposit on April 26, 1984.)

Union Gas Limited Joint Venture with Imperial Oil Limited

In 1968 Union and Imperial entered into a joint venture for the development and use of the designated gas storage areas known as the Bickford Pool and the Sombra Pool. Union was named operator of this joint venture. For some years Union has had an application pending for the fixing of final rates for storage service by the joint venture, thus enabling the Board to deal with the matter on an interim basis. The main rates hearing commenced on March 27 and concluded on April 5, 1984 and the Board decision is pending.

Wellandport Gas Company Limited

Wellandport is a small natural gas utility serving customers in the Townships of West Lincoln and Wainfleet in the Regional Municipality of Niagara. It produces most of its own natural gas but also purchases some from Union Gas.

On January 6, 1984 the Board approved, without a hearing, Wellandport's December, 1983 application to extend its existing interim rates for the sale of gas for a period of not more than one year commencing December 13, 1983.

Gas Storage

On September 22, 1983, following a hearing, the Board designated Gaiswinkler Enterprises Limited as manager of a tertiary production operation in the Gobles Pool, previously managed by Rayrock Resources Limited.

Certificates and Franchises

During the fiscal year the Board granted four certificates of public convenience to Northern & Central Gas Corporation Limited as follows:

a) Town of Picton, Villages of Bloomfield and Wellington, Township of Hallowell;
b) Town of Mattawa;
c) Village of Sundridge, Township of Strong;
d) Township of Oliver.

At Northern's request, the Board also amended the certificate granted in the previous fiscal year for the Town of Valley East.

The Board also approved or prescribed the terms and conditions of twelve franchise agreements for the distribution of natural gas, as follows:

Consumers' Gas	- Townships of Mono and Clarence
Northern and Central Gas	- Towns of Picton* and Mattawa*; Townships of Hallowell; Brighton; Sophiasburgh*; Strong* and Oliver*; Villages of Bloomfield; Chesterville and Wellington.

* municipalities enfranchised for the first time.

Pipeline Construction

Six applications for leave to construct by Northern & Central and one by Union Gas were heard in the fiscal year, as follows:

Northern and Central

- from TCPL Transmission Line, to District Regulator Station, Town of Brighton.
- from Township of Sophiasburg to Village of Wellington.
- from Town of Rayside-Balfour to Town of Valley East.
- from Township of Papineau to Town of Mattawa.
- from Village of South River to Township of Strong.
- from Township of Paipoonge to Township of Oliver.

Union Gas

- from St. Mary's to Beachville.

These were all approved subject to conditions concerning environmental and construction aspects, and with provisions for the filing of post-construction cost and environmental information.

Pipeline Exemptions

In special circumstances the Board may exempt a person from obtaining leave to construct a particular transmission pipeline. During the fiscal year the Board granted Union Gas an exemption from hearing in the case of the Brantford Township NPS6 Line.

Accounting Orders

Under the Board Uniform Accounting Procedures, Union Gas requested three accounting orders, for (a) a change in depreciation rates, (b) amortization of the SNG premium for the period November 1, 1981 to March 31, 1983, and (c) an amendment to the Board Accounting Order issued May 4, 1982 with respect to the final accounting of a Petrosar SNG premium account. All three requests were granted.

In addition, the Board received requests from Consumers', Northern & Central and Union for accounting orders authorizing the deferral of the net impact of February 1, 1984 changes in the price component of the cost of natural gas. These requests were pending at the end of the fiscal year.

ADVISORY HEARINGS

Ontario Hydro

A reference was received from the Minister of Energy on April 13, 1983 requesting the Board to examine and report on Ontario Hydro's proposal to change its rates effective January 1, 1984. The hearing commenced May 31 and concluded June 30, 1983, after which argument was submitted by the various parties. The Board reported to the Minister of Energy on August 31, 1983.

Ontario Hydro proposed a total net revenue requirement for 1984 of $3,767 million, an increase of $461 million over the level expected in 1983. This revenue increase would be realized through $124 million in higher sales and $337 million in the proposed rate increases. The major factors necessitating the increase in the 1984 revenue requirement were forecast by Hydro to be: load and system growth ($506 million increase), the economic environment ($162 million increase), and changes in financial, depreciation and accounting policies ($207 million decrease). Hydro's proposal would have resulted in an average increase of about 9.7 percent for the 321 municipal utilities, the approximately 100 industrial customers and Hydro's rural retail customers.

In its report to the Minister, the Board recommended that the 1984 revenue requirement be reduced by $116 million, as shown in the Appendices thereby lowering Hydro's proposed average rate increase to 6.3 percent from 9.7 percent.

The Board made the following specific recommendations and comments:

Recommendations Relating to Cost Allocation and Rate Design

1. That the appropriateness of the modified CPP be reviewed as a pre-requisite to the acceptance of any rates based on its use.

2. That Hydro strive to bring seasonal rates into effect in 1985, together with diurnal differentiation and that early notice should be given of this intention.

3. That Hydro ensure that the study of customer classification and diversity benefits is completed and included in its 1985 rate proposal.

4. That Hydro review the sharing of diversity benefits in general and the Bary Correction in particular.

5. That Hydro review the boundary between the generation and transmission functions as well as the proportion of grid costs that should be treated as energy related.

6. That an off-peak excess demand charge should not be included in the rate schedules.

7. That the extended demand interval measurement as proposed by Hydro be accepted.

8. That the interruptible rate discount be adjusted to 81¢ per kW for 1984.

9. That the distributing companies be included with the municipal utilities for cost allocation purposes.

10. That the proposal for impact relief for the direct industrial customers be rejected and the new rate be phased in.

11. That cost allocation methodology proposed and recommended but not implemented should not be excluded from reconsideration in the review of a subsequent rate proposal.

12. That the blended rate proposed by Hydro be rejected.

13. That the intermittent rate as proposed by approved on an experimental basis subject to annual review.

14. That intermittent power should be made available to all bulk power customers and that separate metering or other certain means should be employed to ensure that there is no conversion of firm power to intermittent power.

Recommendations Relating to Future Hearings

1. That Hydro's proposal to alter the schedule for the preparation of load forecast for future hearings be accepted on a trial basis.

2. That the economic assumptions underlying the load forecasts, especially as to economic growth rates be explicitly stated.

3. That the operation of NPD should be continued and that the Board be informed of the negotiations with AECL at the next hearing respecting the cost of steam and OM&A costs.

4. That Hydro's present policy as to the pricing of power used internally is inconsistent with that used for steam and such inconsistency should be reviewed in next year's hearing.

5. Hydro should present an up-to-date review of its progress in obtaining permission for new transmission lines at Bruce in next year's hearing.

6. The treatment of disallowed nuclear agreement payback costs be examined further in next year's hearing.

7. That Hydro submit a report at next year's hearing on the status of its cobalt negotiations with AECL.

8. That Hydro provide more detailed support for its methodology for forecasting hydraulic production at next year's hearing.

9. That the staff and compensation levels for non-regular staff be closely examined at next year's hearing.

10. That in future submissions, overtime costs be shown separately by branches as part of the general compensation information.

11. That the Atrium space should be vacated as soon as possible and that the Board should be informed of progress in this area.

12. External marketing advice should be sought by Hydro and presented in evidence, at least in a preliminary fashion, in next year's hearing.

13. Evidence on the magnitude of training costs to be capitalized be filed at next year's hearing.

14. That Hydro prepare a list of consistently delinquent municipalities for introduction at next year's hearing, if requested by the Board to do so.

15. That Hydro be prepared to review its accounting policies, practices and procedures in respect of heavy water in next year's hearing.

16. That Hydro present a thorough review of Lennox for presentation at the next hearing which should include a study of its potential usefulness in the 1990s, the cost to decommission and a proposal to accelerate its write-off.

17. That Hydro produce at next year's hearing a comparison of its capital budgeting and cost control process with that followed by comparable U.S. utilities, including the material filed with those utilities' regulatory boards in regard to this subject.

18. That Hydro in next year's hearing address the issue as to whether the accumulated provision accounts should continue to be treated as debt in computing the debt ratio.

Recommendations Relating to Other Matters

1. That Hydro reconsider policies with respect to exchange gains or losses resulting from premature retirement of debt.

2. That Hydro reconsider policies with respect to specialized training costs.

Comments for Consideration of the Minister

1. That Hydro seek an amendment to the Power Corporation Act to allow it to charge an appropriate rate of interest on its overdue accounts.

Natural Gas Used as a Feedstock

Order-in-Council 316/83, dated February 9, 1983, directed the Board to examine and report on aspects of natural gas supply and pricing of concern to Ontario industries using natural gas as a feedstock. Following the issuance of appropriate notices, all pre-filed evidence was received by July 11 from interested parties. The hearing commenced on July 18, adjourned on August 5, reconvened on September 6 and concluded on September 13, 1983 for a total of 24 hearing days. Final written submissions and replies were filed by October 21, 1983.

Submissions were received from the twenty-one parties listed below and evidence was presented at the hearing by fourteen participants and direct day-to-day participation in terms of cross-examination was conducted by most of those parties. In addition Board staff filed a report requested by Cyanamid relating to cost allocations and an expert witness testified on that study.

MORE PARTIES INVOLVED

* C-I-L
* Cyanamid Canada, Inc.
* Dow Chemical Canada Inc.
* Nitrochem Inc.
* Sunoco Inc.
  Urban Development Institute
* Universal Explorations Ltd.
  Canterra Energy Ltd.
* Consumer and Corporate Affairs Canada
* Dome Petroleum Limited
* Consolidated Natural Gas Limited
* TransCanada PipeLines Limited
  Industrial Gas Users Association
  Petro-Canada
* Northern and Central Gas Corporation Ltd.
* Consumers' Gas Company Ltd.
* INCO Limited
* Independent Petroleum Association of Canada
* Union Gas Limited
  Nova, An Alberta Corporation
  Inter-City Gas Corporation

* presented direct evidence and/or participated at hearing
Note: Consumers Fight Back also appeared briefly.

Among these participants, C-I-L, Cyanamid and Nitrochem, as manufacturers of ammonia-based products, were the largest users of natural gas as a feedstock.

The Board heard submissions concerning two major groups of proposals:

a) alternative gas supply arrangements, other than the traditional purchase from regulated distributors and,

b) a province-wide common rate for natural gas used as a feedstock.

and submitted its Report to the Lieutenant Governor in Council on February 10, 1984.

The Board reported that in the short-term the selling prices of the products of the Affected Industries are not influenced by the price of natural gas, but in the long-term they are. The price of gas affects the profitability and consequently the competitiveness of the Affected Industries which have suffered dramatic increases in their gas costs since 1979. The cost of gas to Ontario ammonia producers is higher than that to their competitors in Alberta, the United States and beyond North America. The cost disadvantage is expected to continue through 1986. Financial hardship, to a varying degree, will continue for the Ontario ammonia producers and other large-volume natural gas users as long as the price of gas remains inflexible compared to the variable prices of the end products of these industries.

The Board recommendations were as follows:

1. That direct purchasing of natural gas, regardless of end use, by any Ontario user be endorsed by the Government of Ontario as being in the long-term public interest, provided the interests of the Ontario utilities and their customers can be protected.

2. That the Government of Ontario give consideration to amending the Ontario Energy Board Act as required to fully implement direct purchases.

3. That the Government of Ontario give consideration to supporting the proponents of direct purchasing before the relevant regulatory bodies in other jurisdictions.

4. That the Ontario Energy Board be authorized to receive and review in public rate hearings or such other time as is appropriate any proposed direct purchase arrangements concerning natural gas to be delivered for use in Ontario, with the objective of approving such arrangements if, in the opinion of the Board, they were in the public interest and adequately protect the interests of other parties in Ontario.

5. That the proposal by Nitrochem and Cyanamid for a common feedstock rate be rejected by the Government.

6. That if it is deemed appropriate by the Government to assist ammonia producers in Ontario a direct subsidy be considered by the Government in preference to the indirect subsidy by means of a common feedstock rate.

Permits and Licences

The Board received the following three references from the Minister of Natural Resources respecting applications for permits to drill in designated gas storage areas.

a) Tecumseh Gas Storage Limited for a permit to drill in the Wilkesport Pool,
b) Union Gas for a permit to drill in the Dawn 251 Pool,
c) Forbes Resources for a permit to drill in the Dawn 59-85 Pool.

The Board issued Reports to the Minister recommending granting of the permits in all three cases.

ONTARIO PIPELINE COORDINATION COMMITTEE (OPCC)

The OPCC is an interministerial committee whose purpose is to ensure that pipelines have minimal undesirable effect on the land by requiring that:

- ° environmentally sensitive areas be avoided in route selection;
- ° landowners be adequately notified and informed;
- ° construction procedures and schedules be developed to cause the least disturbance to the right-of-way and surroundings; and
- ° clean-up and restoration measures be responsibly implemented to restore the right-of-way to as good a condition as existed before the project was started.

Chaired by the Board Pipeline Coordinator, the OPCC coordinates the review of Environmental Reports and assists Board staff in the prepartion for hearings and the development of conditions of approval for pipeline applications. During the fiscal year, the OPCC monitored the construction of five pipelines approved by the Board to ensure compliance with conditions of Board Orders.

Three Ministries that previously participated in the OPCC on a project specific basis, joined the Committee for all project reviews. The OPCC now consists of representatives from the Ministries of Agriculture and Food, Citizenship and Culture, Consumer and Commercial Relations, Energy, Environment, Municipal Affairs and Housing, Natural Resources, Transportation and Communications and when appropriate, the Niagara Escarpment Commission.

During the fiscal year, the Committee produced comprehensive "Environmental Guidelines for the Construction and Operation of Hydrocarbon Pipelines in Ontario" which were well received by industry. These Guidelines set out the functions and concerns of the OPCC and its relationship

to the Board. Also documented are environmental concerns of the member Ministries, assistance and construction procedures, as well as mitigative measures for various construction activities.

The close working relationship between the National Energy Board (NEB) and the OPCC continued throughout the fiscal year and the concerns of the OPCC were incorporated in the NEB conditions of approval for a pipeline to be constructed in southern Ontario. The OPCC also assisted the Ministry of Energy in the preparation for a NEB hearing regarding a proposed propane terminal and loading facility in Flamborough Township.

During the fiscal year, the OPCC was involved in monitoring various stages of construction of more than 500 kilometres of natural gas pipelines under federal and provincial jurisdiction.

ADMINISTRATION

As part of its continuing program of streamlining the regulatory process, the Board benefited this year from the introduction of monitoring forms which enable it to have a more comprehensive data base of utility activities. The next step in this improvement program is to computerize this information and adapt other emerging technologies to Board operations.

In conjunction with ongoing initiatives regarding the regulatory process, the Board reorganized its staffing structure during the fiscal year. This reorganization, based on functional areas of responsibility, is shown in the Appendices.

Changes in Board Members also occurred during the fiscal year. Messrs. D. M. Treadgold, Q.C. and J. R. Dunn retired. Miss S. J. Wychowanec, Q.C. was appointed Deputy Provincial Secretary for Justice, Mr. R. R. Perdue, Q.C. became a full-time Member and Ms. M. C. Rounding and Mr. J. D. McFadyen were appointed to the Board.

At the end of the fiscal year the staff of the Board totalled 33. Board Members and senior staff were:

R. H. Clendining	-	Chairman
I. C. Macnabb	-	Vice-Chairman
H. R. Chatterson	-	Member
D. A. Dean	-	Member
J. D. McFadyen	-	Member
R. R. Perdue	-	Member
M. C. Rounding	-	Member
D. H. Thornton	-	Member
J. C. Butler	-	Part-time Member
O. J. Cook	-	Energy Returns Officer
P. F. Cunningham	-	Manager, Administrative Services
S.A.C. Thomas	-	Board Secretary
D. Grader	-	Board Solicitor
D. R. Cochran	-	Special Projects Officer

Board total expenditures for the fiscal year were $2,569,654 of which $853,981 was recovered from applicants by way of fees and costs and paid into the Consolidated Revenue Fund of the Province.

In Board Notices of Application (which are published in newspapers having major circulation in Ontario) provision is made for those who do not wish to actively participate in the hearing to write to the Board expressing any concerns they may have about the application. These letters are reviewed by Board staff when preparing for the hearing and are summarized at the hearing by Board counsel. In this fiscal year the Board received 113 letters of concern and several petitions, as compared to 667 letters in the previous fiscal year.

In addition to letters of concern regarding specific applications, the Board also receives many letters and telephone calls from natural gas customers relating to a variety of difficulties which have arisen with their gas utility. Board staff discuss some of these matters with the parties in an attempt to resolve the issues and reply to all written complaints.

NATURAL GAS RATE CHANGES GRANTED TO THE CONSUMERS' GAS COMPANY LTD. FOR TYPICAL RESIDENTIAL CUSTOMERS (FISCAL YEAR APRIL 1, 1983 TO MARCH 31, 1984)

A typical residential customer, using 3.77 10^3m^3 of gas annually for space and water heating, would have incurred an annualized cost of approximately $860 based on rates in effect at the beginning of the fiscal year.

During the fiscal year no rate changes were granted:

Effective Date	Amount per 10^3m^3	Reason	Annualized effect on typical residential customer
	$		$ (approximately)
N/A	Nil	N/A	Nil

The annualized cost for a typical residential customer remains at approximately $860 for fiscal year 1984.

NATURAL GAS RATE CHANGES GRANTED TO NORTHERN AND CENTRAL GAS CORPORATION LIMITED FOR TYPICAL RESIDENTIAL CUSTOMERS (FISCAL YEAR APRIL 1, 1983 TO MARCH 31, 1984)

A typical residential customer, using 3.87 10^3m^3 of gas annually in the Western Zone, or 3.77 10^3m^3 in the Northern Zone, or 3.12 10^3m^3 in the Eastern Zone, for space and water heating, would have incurred an approximate annualized cost of $796 or $806 or $691, respectively, based on rates in effect at the beginning of the fiscal year.

During the fiscal year the following rate changes were granted:

Effective Date	Amount per 10^3m^3 West Zone $	North Zone $	East Zone $	Reason	Annualized effect on typical residential customer West Zone $	North Zone $	East Zone $
					(approximately)		
Jan. 1/84	0.21	0.73	1.48	Gas Cost	1	3	5
Jan. 1/84	8.44	8.44	8.44	Revenue Requirement	33	32	26
	8.65	9.17	9.92		34	35	31

Based on the above, the annualized cost for a typical residential customer at the end of the fiscal year would have been approximately 4.3 percent higher or $830 in the Western Zone, or 4.3 percent higher or $841 in the Northern Zone, or 4.5 percent higher or $722 in the Eastern Zone.

NATURAL GAS RATE CHANGES GRANTED TO UNION GAS LIMITED FOR TYPICAL RESIDENTIAL CUSTOMERS (FISCAL YEAR APRIL 1, 1983 TO MARCH 31, 1984)

A typical residential customer, using 3.54 10^3m^3 of gas annually for space and water heating, would have incurred an annualized cost of approximately $777 based on rates in effect at the beginning of the fiscal year.

During the fiscal year the following rate changes were granted:

Effective Date	Amount per 10^3m^3	Reason	Annualized effect on typical residential customer
	$		$ (approximately)
April 29, 1983	2.31	Gas Cost	8
April 29, 1983	10.93	Revenue Requirement	39
Dec. 21, 1983	(1.67)	Gas Cost	(6)
	11.57		41

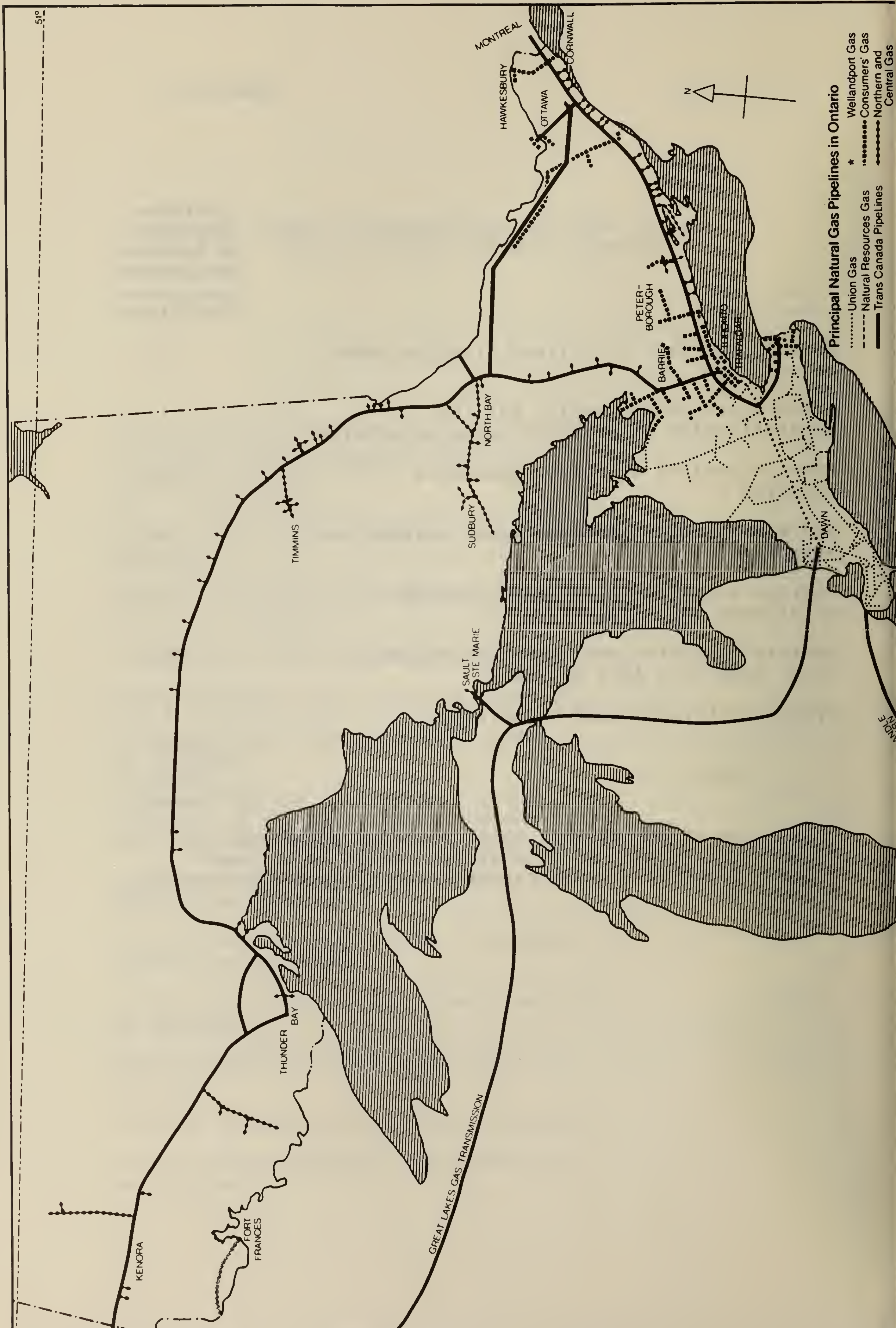
Based on the above, the annualized cost for a typical residential customer at the end of the fiscal year would have been approximately 5 percent higher or approximately $818.

BOARD RECOMMENDATIONS RELATING TO THE ONTARIO HYDRO 1984 RATE PROPOSAL

	Increase (Decrease) in Revenue Requirement
	$millions
Hydro's forecast of the Canadian inflation rate be adjusted and its revised forecast of U.S. inflation rate be accepted	(24)
Hydro's forecast of interest rates be adjusted	(11)
Hydro's forecast of the Canadian dollar be adjusted	21
Hydro's load forecast be adjusted	(15)
Hydro's revised coal costs be accepted	38
Hydro's revised power purchase costs be accepted	(28)
Hydro's forecast of secondary sales be adjusted and the average price be adjusted	nil
Hydro's electrical capacity factor for Bruce A be adjusted	(5)
Hydro's revised charges for the nuclear payback be accepted	4
Hydro's forecast nuclear in-service dates be delayed	(11)
Hydro's revised productivity cuts be accepted	(5)
Hydro's forecast OM&A costs be adjusted	(17)
Hydro's revised pension fund liability be accepted	3

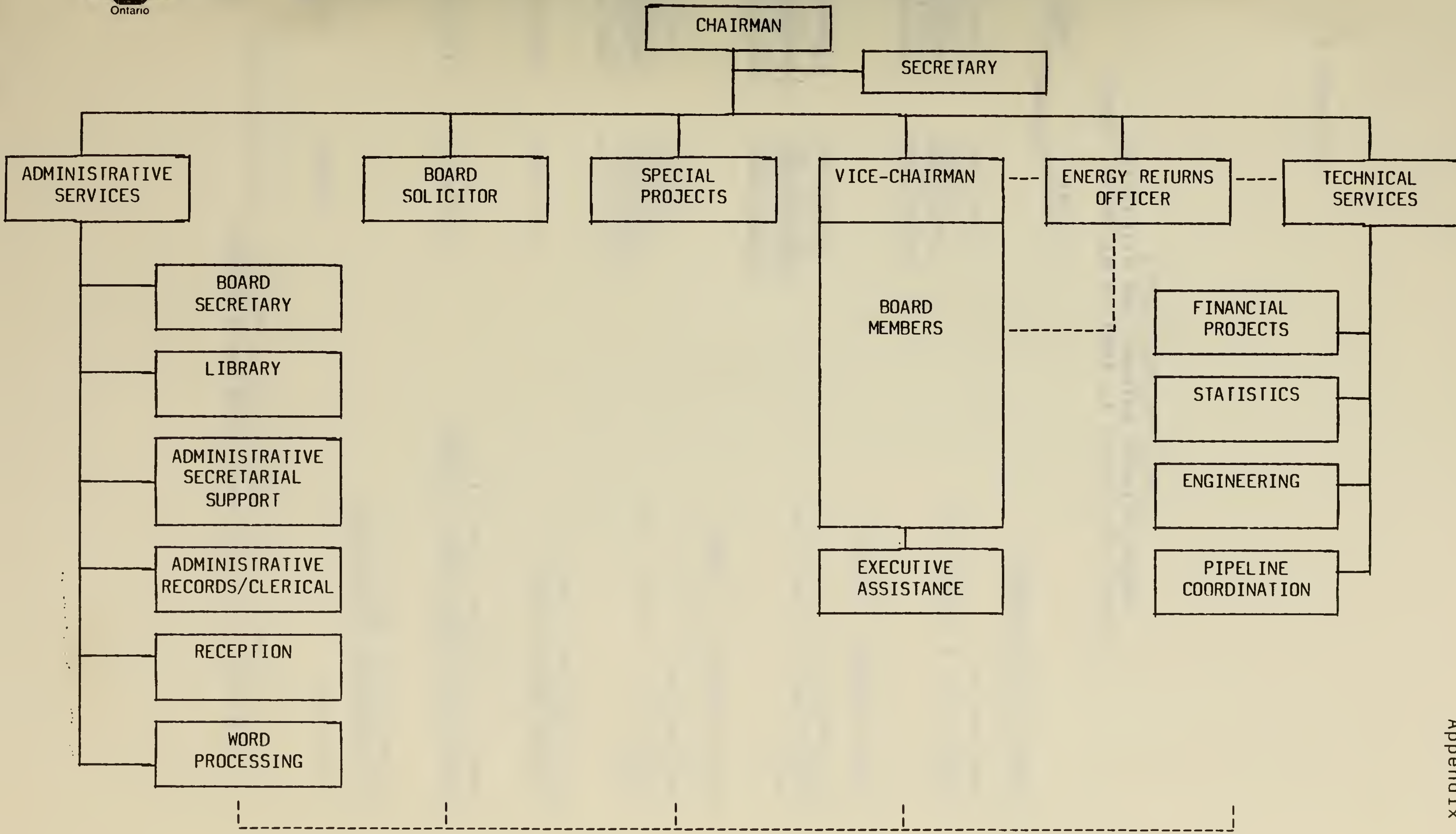
	Increase (Decrease) in Revenue Requirement
	$millions
Hydro's forecast of revised training costs be adjusted	8
Hydro's accounting policy for the capitalization of training costs be altered	1
Hydro's revised interest expense be accepted	(35)
Hydro's revised decommissioning charges be accepted	2
Hydro's accounting treatment for BHWP A be altered	7
Hydro's requested net income be adjusted to no more than $350 million	(54)
Hydro's interest costs be adjusted	5
TOTAL	(116)

The effect of this total downward adjustment in revenue requirement of $116 million would be to lower Hydro's proposed average rate increase from 9.7 percent to 6.3 percent.


Principal Natural Gas Pipelines in Ontario
Union Gas
Natural Resources Gas
Trans Canada Pipelines
Wellandport Gas
Consumers' Gas
Northern and Central Gas
N
51°
MONTREAL
CORNWALL
HAWKESBURY
OTTAWA
PETER-BOROUGH
BARRIE
TORONTO
TRAFALGAR
NORTH BAY
SUDBURY
TIMMINS
DAWN
SAULT STE MARIE
THUNDER BAY
KENORA
FORT FRANCES
GREAT LAKES GAS TRANSMISSION

Ontario Energy Board

Functional Organization March 1984



SELECTED STATISTICS
MAJOR ONTARIO NATURAL GAS UTILITIES*
(Fiscal Year April 1, 1983 to March 31, 1984)

	1984	1983
	(rounded)	
Number of Customers:		
Residential	1,247,700	1,199,400
Commercial & Industrial	144,100	138,600
Total	1,391,800	1,338,000
Sales Volume: (10^3m^3)		
Residential	4,100,700	4,299,600
Commercial & Industrial	14,032,100	14,462,400
Total	18,132,800	18,762,000
Sales Revenue: ($000)		
Residential	932,100	796,800
Commercial & Industrial	2,330,600	1,960,800
Total	3,262,700	2,757,600
Distributors' Cost of Natural Gas: ($000)	2,652,300	2,423,500
Capital Invested in Utility Operations (Rate Base) ($000)	2,202,900	2,035,200
Transmission and Distribution Pipelines:		
Kilometres	40,200	39,200

* The Consumers' Gas Company Ltd., Northern and Central Gas Corporation Limited and Union Gas Limited.